

Message Text

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R 110020Z NOV 75
FM SECSTATE WASHDC
TO AMEMBASSY LONDON
INFO AMEMBASSY CARACAS

C O N F I D E N T I A L STATE 266057

E.O. 11652: GDS

TAGS: ENRG EINV VE

SUBJECT: PETROLEUM ROYALTY HOLDERS

REF: (A) STATE 243027 (B) STATE 246291

1. REFTELS AND PREVIOUS COMMUNICATIONS HAVE DEALT
WITH PROBLEM OF OVERRIDING ROYALTY RIGHTS ATTACHING TO
CONCESSIONS NOW IN PROCESS OF NATIONALIZATION IN VENEZUELA.
NATIONALIZATION LAW LIMITATION OF COMPENSATION TO PHYSICAL
ASSETS AND ABSENCE OF COMPENSATION FOR CONCESSION RIGHTS
WOULD APPEAR TO IMPLY THAT NO COMPENSATION WILL BE
PROVIDED FOR ROYALTYRIGHTS ATTACHING TO THOSE
CONCESSIONS. AS INDICATED IN STATE 177721, AMERICAN
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ULTRAMAR LIMITED OF MT. KISCO, NEW YORK WHICH REPRESENTS SOME OF US NATIONALS HOLDING SUCH ROYALTY RIGHTS, DOUBTS ANY GOV INTENT TO SO COMPENSATE UNDER NATIONALIZING LEGISLATION IN ITS PRESENT FORM AND HAS SUGGESTED USG INTERCESSION WITH GOV. EXACT NUMBER OF ROYALTY RIGHT HOLDERS IS NOT KNOWN BUT MAY EXCEED 100 RESIDENT IN VENEZUELA, US, UK AND ELSEWHERE.

2. USG HAS NOT BEEN REQUESTED BY CONCESSIONAIRES TO CONTEST NOR HAS IT CONTESTED VENEZUELA'S NATIONALIZATION LAW IN ITS TREATMENT OF CONCESSION RIGHTS BUT HAS MADE CLEAR TO GOV THAT WE DO NOT AGREE WITH ITS STANDARD OF COMPENSATION (NET BOOK VALUE LESS CERTAIN DEDUCTIONS). ACCORDINGLY, WE NOW BELIEVE THAT IT WOULD BE INCONSISTENT TO PRESS GOV FOR COMPENSATION TO HOLDERS OF ROYALTY RIGHTS.

3. AT SAME TIME, WE HAVE RECEIVED SOME AND ANTICIPATE MORE CHARGES OF INEQUITY TO BE MADE BY ROYALTY HOLDERS WHO WILL BE CUT OFF WITHOUT COMPENSATION FROM THEIR ESTABLISHED SOURCE OF INCOME.

4. TO THE EXTENT THAT SUCH INEQUITY EXISTS, GOV MIGHT WISH OR BE PREPARED OR PERSUADED TO ALLEVIATE IT BY SPECIAL LEGISLATIVE OR ADMINISTRATIVE PROVISION FOR ROYALTY HOLDERS, EX GRATIA PAYMENTS, OR OTHER STEPS.

5. WE CONTINUE TO BELIEVE THAT AN EXCHANGE OF INFORMATION AND VIEWS WITH HMG ON THIS MATTER COULD BE USEFUL. IN PARTICULAR WE WOULD LIKE TO KNOW HMG APPRAISAL OF LEGAL AND EQUITABLE MERIT OF ROYALTY HOLDERS' CLAIMS FOR COMPENSATION, NUMBER AND VALUE OF SUCH CLAIMS REPRESENTED BY BRITISH NATIONALS, AND GENERAL ATTITUDE AND INTENTIONS OF HMG WITH RESPECT TO OFFICIAL REPRESENTATIONS ON THEIR BEHALF. SHOULD WE DECIDE IN FAVOR OF USG DEMARCHE, WE WOULD OF COURSE WELCOME COORDINATED MOVE BY HMG, AND IN MEANTIME DESIRE HAVE FULLEST POSSIBLE INFORMATION AS TO DIMENSIONS OF THIS PROBLEM.

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6. UNLESS EMBASSY LONDON PERCEIVES OBJECTION, IT IS REQUESTED UNDERTAKE SUCH EXCHANGE OF VIEWS. KISSINGER

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